

A PUBLICATION OF THE BONNEVILLE POWER ADMINISTRATION

keeping

CURRENT

July 2002

PROGRAMS
IN REVIEW:
The value of
transmission



Review of Transmission Business Line Program Level Costs – FY 2004 to FY 2006

Fiscal years 2002 and 2003 are transition years for the Bonneville Power Administration's Transmission Business Line. To improve system adequacy, reliability and availability, TBL has embarked on major transmission infrastructure projects to shore up the region's transmission system. These projects are meant to address multiple challenges, such as the need to relieve the growing number of congested transmission paths, the requirement to connect needed new power plants, the pressure to keep up with growing energy demands and the need to accommodate the Federal Energy Regulatory Commission's open access policy. To adequately meet these challenges, the Transmission Business Line is projecting increases in its capital spending and expense costs associated with maintaining and improving the region's transmission system.

TBL is also working to improve efficiencies and identify potential cost reductions. It initiated cost reduction measures that reduced overall transmission program costs in fiscal year 2002 by \$16.3 million or 6.9 percent. TBL anticipates overall program levels for fiscal years 2002-2006 to be reduced by \$164 million

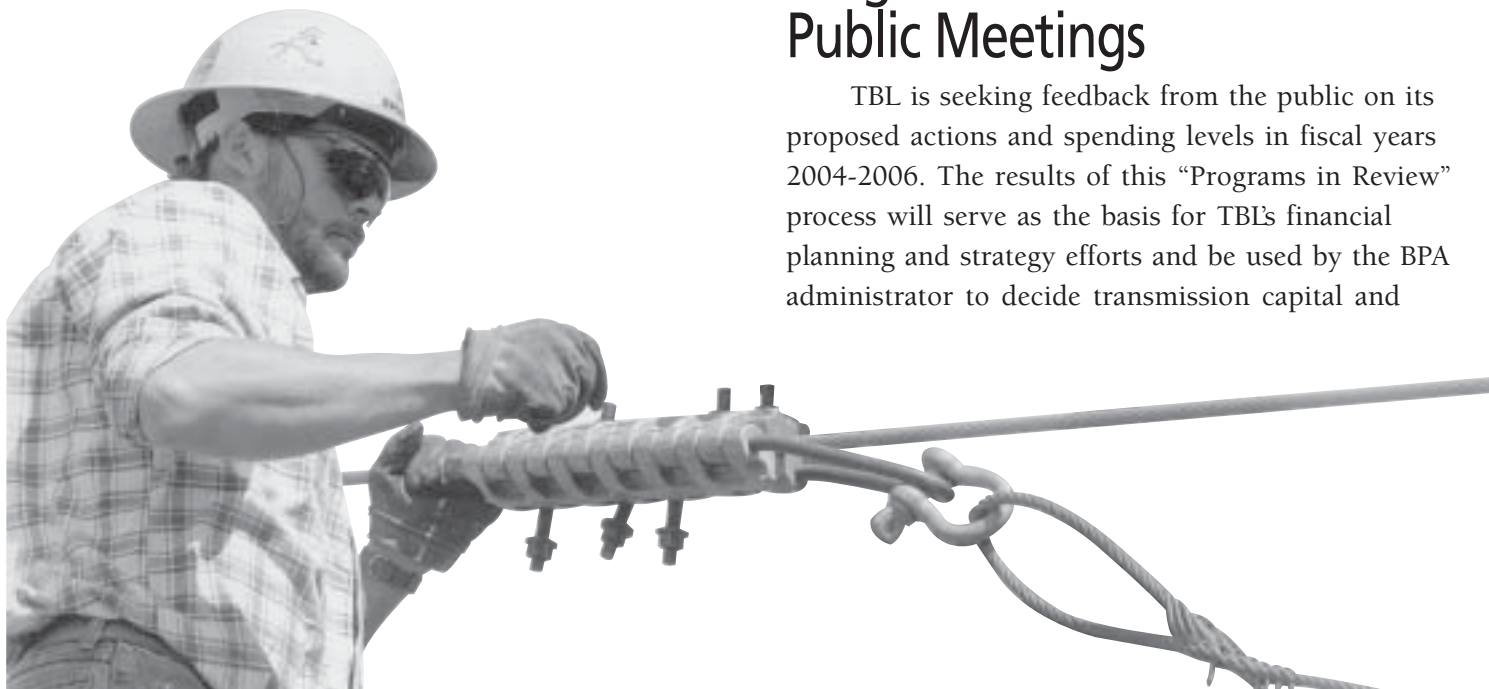
or 10 percent for capital and \$54 million or 4.5 percent for expense levels.

In July, TBL will hold a series of public meetings known as "Programs in Review" to share its planned capital and expense level proposals for fiscal years 2004-2006 with customers, constituents and other interested parties. At the meetings, TBL executives will present an overview of BPA program and budget levels being proposed to maintain an adequate and reliable transmission system.

BPA's Power Business Line will also be conducting a public process this summer to address the agency's overall financial position through the rest of the power rate period, which runs through fiscal year 2006. Barring significant management action, the agency is looking at a substantial revenue shortfall that would run through the remaining rate period. The PBL has outlined five approaches to resolving the financial shortfall and is entering into a discussion with the region over the right financial, program and value choices necessary to balance the agency's public responsibilities, rates, reliability, financial integrity and risk. The agency will be holding public meetings and taking comments through Sept. 30. The administrator will announce the agency's approach to solving the problem in December.

Programs in Review Public Meetings

TBL is seeking feedback from the public on its proposed actions and spending levels in fiscal years 2004-2006. The results of this "Programs in Review" process will serve as the basis for TBL's financial planning and strategy efforts and be used by the BPA administrator to decide transmission capital and



expense levels. Those capital and expense levels will then be reflected in TBL's rate proposal later this year.

The next TBL rate case, which will begin with a formal process and proposal this fall or winter, will determine the structure of tariffs as well as the allocation of transmission costs to customers. Although the years covered by the review are not necessarily the same that will be considered in the upcoming rate case, TBL is presenting a forward-looking scenario in order to support whatever rate case period customers and TBL managers decide is needed.

*By the end of the process,
TBL anticipates its transmission
prices will continue to be among the
lowest in the Northwest.*

These public meetings seek to explore customers' and constituents' views concerning the following major issues facing TBL in determining the agency's future costs and reliability levels:

- 1. Operating and maintaining an aging transmission system;
- 2. Building and maintaining a business framework in a changing environment;
- 3. Building a capital transmission infrastructure to meet load growth, contractual reliability and resource integration demands; and
- 4. Maintaining a skilled and trained workforce.

Programs in Review History

Direction set in previous review

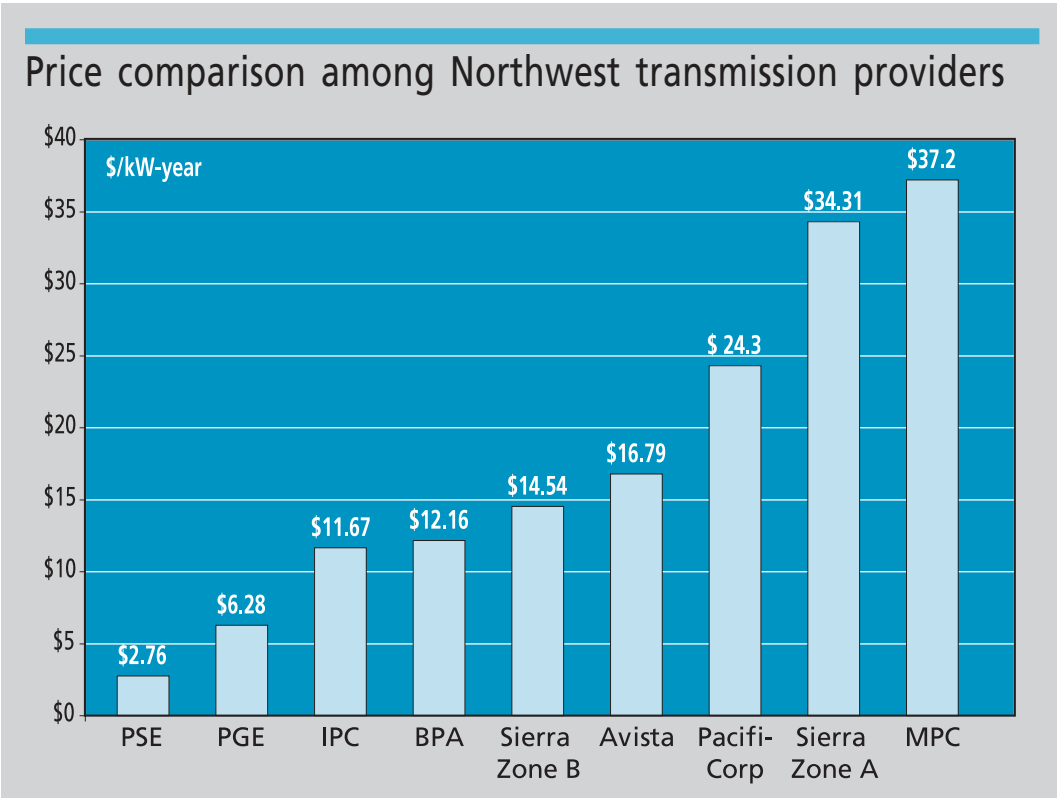
From 1992 to 1998, TBL cut costs and used innovative technologies and techniques to meet customer needs and market demand. During this time, borrowing for capital projects fell by 66 percent and borrowing for main grid projects dropped by 84 percent. TBL staff levels dropped by 36 percent.

However, by 1999, the transmission system was operating at or near capacity due to load growth throughout the region and increased transactions enabled by market deregulation. These factors led TBL to increase spending in order to maintain the transmission system's adequacy, reliability and availability.

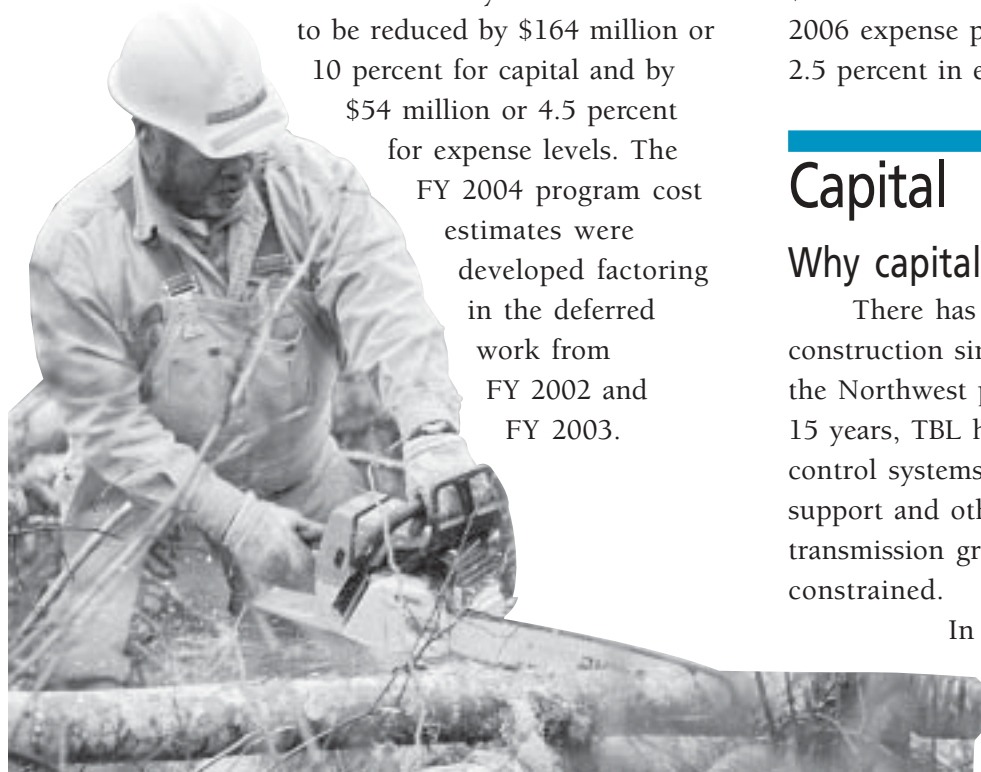
The situation is the same today. Planning for fiscal years 2004-2006 reflects what TBL and its customers chose to do in fiscal years 2002-2003.

Cost reductions already taken

BPA is currently reviewing all expenditures and budgets for fiscal years 2002 and 2003. This includes both business line operations and all of BPA corporate functions. Steve Wright, BPA administrator, has stated that one of his highest priorities is to reduce spending in all sections of the agency while meeting current program needs.



TBL is reviewing its current program levels and has reduced its overall capital and expense program levels for fiscal year 2002 by \$16.3 million or 6.9 percent. In total, TBL anticipates overall program levels for fiscal years 2002-2006 to be reduced by \$164 million or 10 percent for capital and by \$54 million or 4.5 percent for expense levels. The FY 2004 program cost estimates were developed factoring in the deferred work from FY 2002 and FY 2003.



TBL is projecting 2003 expenses of \$213 million, 9 percent below previous workload projections. In fiscal year 2004, to account for deferred and increased work, TBL projects expense estimates of \$232.2 million. TBL will hold fiscal years 2005 and 2006 expense program levels to the 2004 level, plus 2.5 percent in each year to account for inflation.

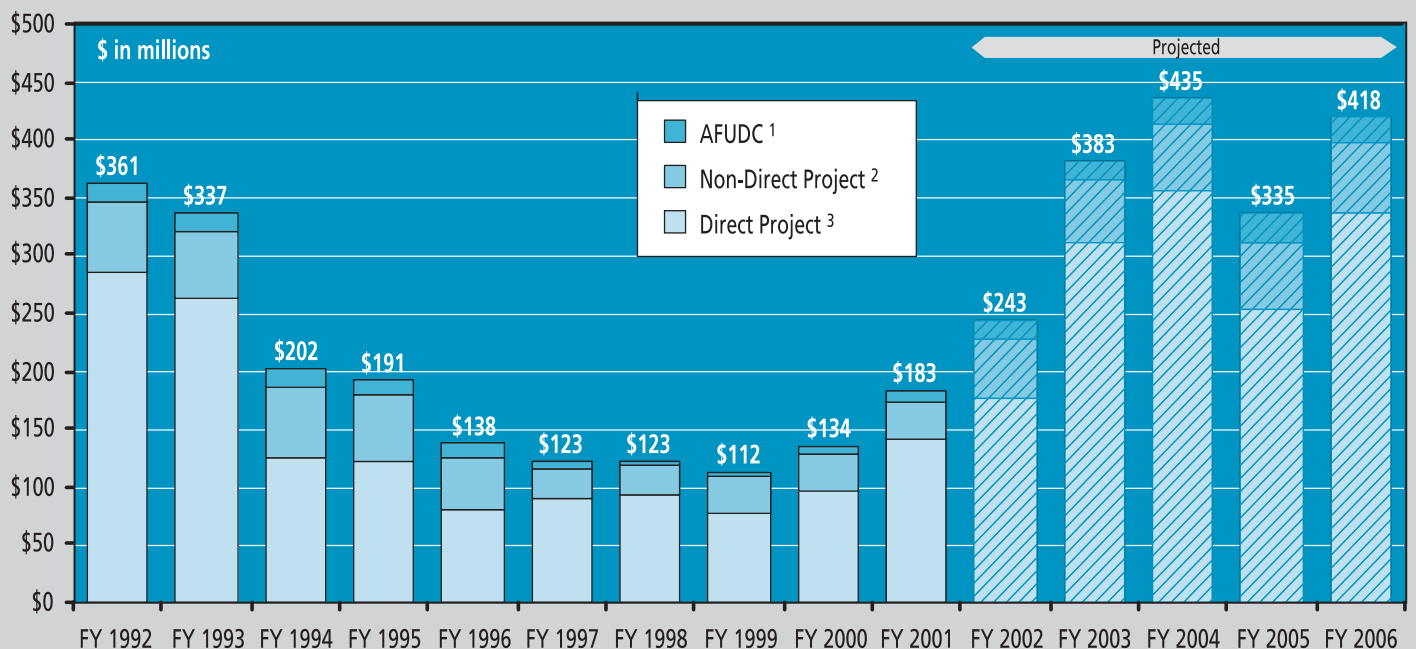
Capital

Why capital costs are rising

There has been no substantial transmission construction since 1987, despite significant growth in the Northwest population and economy. Over the last 15 years, TBL has upgraded communications and control systems, installed shunt capacitors for voltage support and other technical fixes to strengthen the transmission grid in areas where transmission was constrained.

In 2001, a review team made up of technical representatives from throughout the region identified

TBL capital projects historical and future trends (Fiscal years 1992-2006)

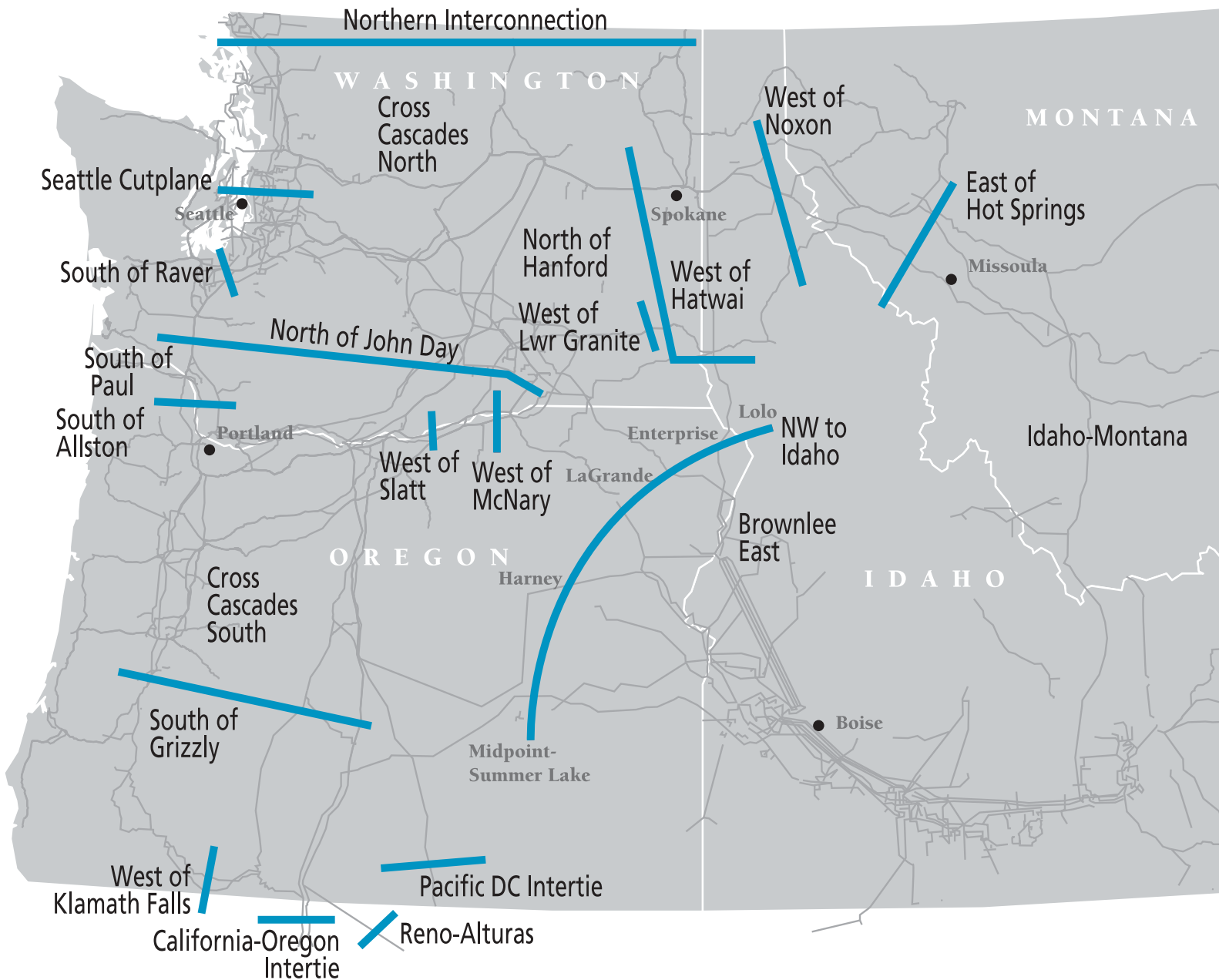


¹ Allowance for Funds Used During Construction.

² Non-direct project costs include TBL indirect costs and Corporate overhead costs.

³ FY 2002-2004 direct project costs include projects funded by alternative sources.

Constrained paths



a “compelling and immediate need to upgrade portions of the Northwest bulk transmission grid.” BPA initially identified nine projects to address load growth, ease regional congestion within the system, replace aging equipment and integrate needed generating facilities.

The review team evaluates the grid’s needed projects on a yearly basis. There are currently 20 projects on this list. It has identified transmission infrastructure needs, including building new lines and upgrading existing lines. These activities contribute

to the overall safety and reliability of the federal transmission system, but at the same time they increase costs associated with TBL’s capital programs.

More than half of those projects directly address the grid’s congested paths. There are a growing number of locations where the demand exceeds the transmission system’s capacity. This congestion increases prices by limiting the movement of energy towards load centers.

TBL has identified potential ways to cut proposed capital spending in fiscal years 2003-2006 by 10 percent. It is also investigating additional means of financing its most critical projects, including:

Non-federal financing. TBL is considering the use of nonfederal financing for some infrastructure projects in addition to paying for projects through BPA's federal borrowing authority. The options being considered would help TBL finance at least some of its projects while also allowing their timely conclusion.

Non-federal alternatives under consideration include partnering in the construction, use or acquisition of a transmission project. TBL could also partner with suppliers, end-use customers, generators or traditional financial institutions. Whatever the arrangement, BPA must make sure it is permissible under its statutory authority, and is consistent with the rights and obligations under TBL's tariff. Any alternatives must also avoid shifting risks among TBL transmission customers or adversely affecting BPA's federal debt.

Non-wires alternatives. Since 1981, BPA has aggressively pursued conservation efforts, acquiring more than 750 average megawatts over that time period. These "non-wires" solutions have helped the agency delay the need for new transmission infrastructure in many parts of the region. TBL believes it

has exhausted most non-wires alternatives for the near term and new transmission infrastructure is needed throughout the region. However, BPA recently commissioned a report to look into the feasibility of non-wires options to solve transmission limitations.

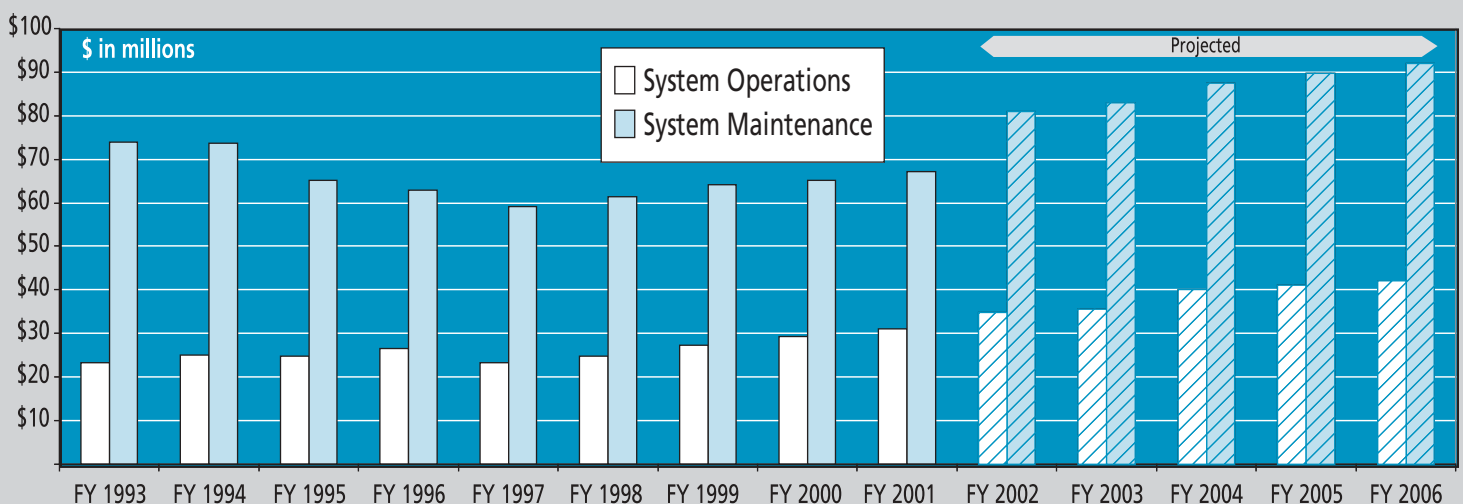
The report recommends that BPA further involve regional stakeholders in its transmission planning process in the expectation that broadly shared information will lead to a more cost-effective and efficient regional system. TBL is currently screening two transmission infrastructure projects against the costs of various forms of distributed generation, load management and pricing programs to see if there are economical and reliable non-wires alternatives to these projects.

Expenses

Operation and maintenance trends

Operations and maintenance expenses are rising due to the need for new infrastructure projects, as well as TBL's efforts to manage a constrained system. Planned outages are increasingly difficult to obtain and additional staff is needed for maintenance to assure the work is accomplished in a manner that accommodates the traffic on the lines while protecting reliability.

O&M direct expenses (Fiscal years 1993-2006)



Staffing changes

In the 1990s, TBL reduced staff in an effort to be a low-cost provider in an increasingly competitive marketplace. From mid-year 1994 through 1999, TBL staffing levels dropped 36 percent. TBL flattened its management structure from five to three layers and cut management staff by 60 percent through radical reorganization and reengineering. In some cases, cuts went too far and too deep. In other instances, TBL did not accurately anticipate the change in volume and complexity of work driven by the changing electricity industry and how that would affect its staffing needs.

In the past two years, overtime levels have increased by 59 percent and compensated time by 55 percent. Staffing levels grew by about 12 percent from 1999, TBL's lowest staffing level in over a decade and far below its mid-1994 peak.

For 2003 and 2004, TBL anticipates modest increases in workload with workforce levels peaking as the infrastructure program hits its stride. A ramp-down can then be accomplished through attrition, given the age profile of TBL employees.

Today, approximately 40 percent of the TBL workforce is 50 or older. TBL anticipates an unprecedented rate of employee departures in the post-2004 period. The infrastructure

enhancement and stabilization programs provide a perfectly timed opportunity for developing a new workforce that can take the federal transmission system into the future.

Corporate and shared services

Following the directive of Federal Energy Regulatory Commission Order 888, BPA split its transmission functions into separate business entities in 1996. However, certain support activities remained with BPA's corporate organization. These corporate support activities include personnel and employee benefits, legal, finance, environmental and security. Corporate staffing is increasing, partly due to the increasing sizes of business line work forces and because of increased physical and cyber security needs following Sept. 11. Large transmission infrastructure efforts are also placing more demands on corporate organizations including National Environmental Policy Act assessment for transmission and generating projects, legal support for land acquisitions and safety inspectors on the project sites.



Programs in Review Meeting Schedule

Meetings with customers are scheduled in July. A comment summary will be provided this fall. After reviewing the comments and considering your input, the BPA administrator will close the public process by issuing a final decision on the program levels this fall.

Please plan to attend one or more of the following meetings:

Idaho Falls

July 17 – 1 p.m. to 5 p.m.
City Council Chamber
140 S. Capital

Spokane

July 18 – 8:30 a.m. to 12:30 p.m.
West Coast Ridpath Hotel
W. 515 Sprague

Portland

July 19 – 8:30 a.m. to 12:30 p.m.
Sheraton Portland Airport Hotel, Cascade Room
8235 N.E. Airport Way

Kennewick

July 24 – 1 p.m. to 5 p.m.
Benton County PUD, Auditorium
2721 West 10th Ave.

Tacoma

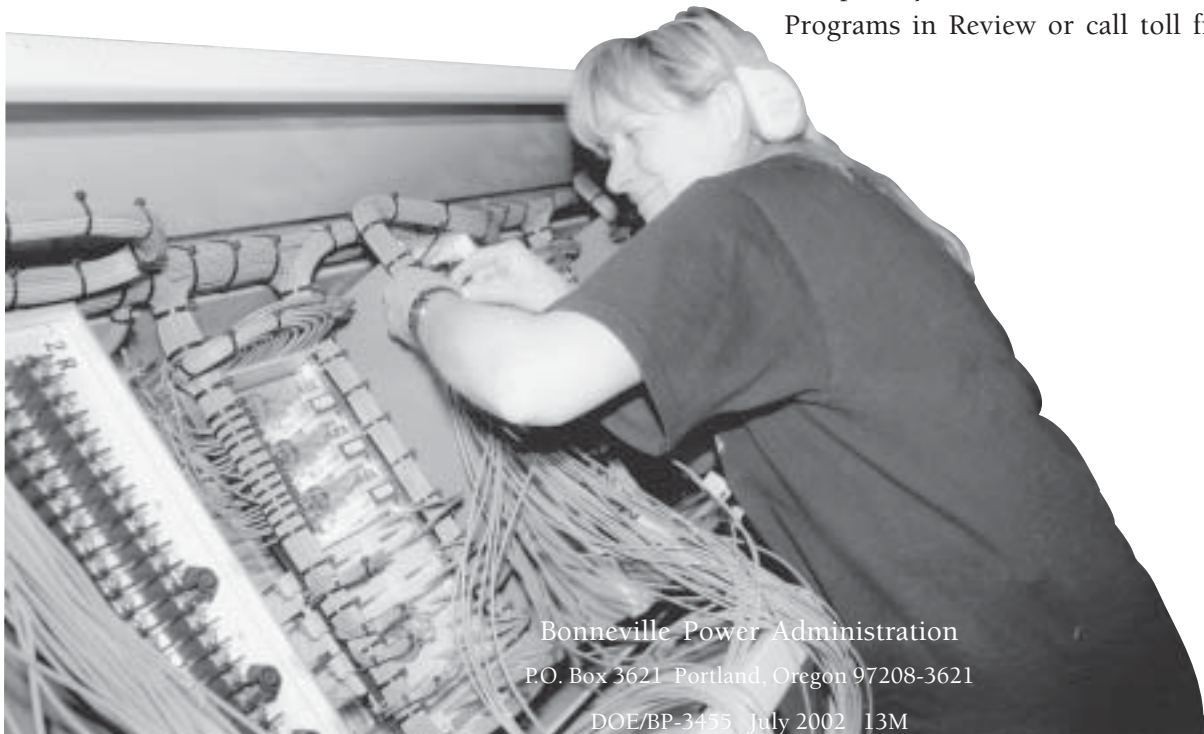
July 25 – 8:30 a.m. to 12:30 p.m.
Tacoma Power, Public Utilities Auditorium
3628 South 35th St.

TBL will take comments on its “Programs in Review” from July 15 through Sept. 16, 2002. Send comments to:

Linda Harris-Proctor - TMC-DITT2
Bonneville Power Administration
P.O. Box 491
Vancouver, WA 98666
or e-mail to llharris@bpa.gov

If you have any questions, please contact your TBL account executive, or Linda Harris-Proctor at (360) 418-8232/e-mail llharris@bpa.gov.

The TBL will make available in the near future additional detailed information to help customers and constituents prepare for the regional meetings. For more information, contact your TBL account executive, refer to the TBL Web site at: www.transmission.bpa.gov and point your cursor to News and Events and click on Programs in Review or call toll free 1-888-276-7790.



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DOE/BP-3455 July 2002 13M

